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UNITED STATES DEPARTMENT OF AGRICULTURE
U.S. Commodity Credit Corporation
Washington, D. C.

September 9, 1941

To Chairman, State Agricultural Planning Committees

Re: Recommendations on Activities of the Commodity Credit Corporation

The recommendations of State Agricultural Planning Committees relative to the programs administered by the Commodity Credit Corporation have been carefully reviewed. A number of these recommendations deal with problems which are under consideration at this time and we are particularly pleased to have these timely suggestions.

It is noted that the committees generally recommend continuation and expansion of the commodity loan and storage programs. These recommendations presumably are based on a recognition of the benefits that may be derived by both producers and consumers from the stabilization of supplies and prices that result from commodity loan and storage programs which are properly coordinated with production adjustment and marketing programs.

In addition to these general recommendations there are a number of specific suggestions of particular interest to us at this time. These include (1) loans on roughages in areas with wide variation in yearly production, (2) the storage of larger supplies of government-controlled feed grains and mixed feeds in deficit producing areas, (3) the use of geographic differentials in corn loan rates, and (4) the use of commodity loan and purchase programs to accumulate larger reserve supplies of food generally and safeguard prices of commodities produced in larger quantity for use by foreign countries resisting aggression.

Loans on Roughages

The Commodity Credit Corporation is very much interested in the development of a sound long-time program which will provide high risk areas with substantial reserve stocks of hay and other roughages. We believe such a program could be of great value in stabilizing livestock production and increasing income from livestock enterprises. Also, by providing adequate supplies of supplementary feed during drought years when pastures are short, such a program could make a substantial contribution to the conservation and improvement of grazing lands. Furthermore, with the technological developments of recent years it is now possible to store large quantities of roughages over long periods of time at a relatively low cost. In addition, the relatively high cost of transporting roughages over long distances makes it desirable to provide against temporary production shortages through locally produced and locally stored reserve supplies rather than through transportation from surplus producing areas.

The development of a loan and reserve storage program for roughages will, of course, raise many problems. These problems include (1) providing

proper storage and protection at a low cost for the feed placed in the reserve either on the farms or ranches where produced or where it is to be fed; (2) measurement, grading, and inspection of the reserve supplies; and (3) determination of loan rates for each kind of roughage which will be sufficiently high to give producers adequate assistance in building up and maintaining reserve supplies and sufficiently low to avoid the use of the program as a sales or price-pegging operation. Such a program would, of course, call for a high degree of local responsibility and greatly increase the duties of AAA committeemen.

In spite of the difficulties that would be encountered, however, such a program has so many attractive features and the soundness of such a program has been so thoroughly demonstrated by progressive ranchers and feeders, that it appears to merit the most careful consideration. Further suggestions from State Agricultural Planning Committees regarding such a program will be appreciated.

Location Differentials in Corn Loan Rates

A number of State Agricultural Planning Committees, particularly from the central and eastern portions of the Corn Belt, have recommended that varying corn loan rates based on historical price relationships be substituted for the uniform loan rates that have been used heretofore.

This appears to be a very sound recommendation and it is anticipated that it will be put into effect in connection with the 1941 corn loan. While the pattern of corn prices in the corn belt varies widely from year to year, there is a definite tendency for corn prices to be lowest in southern Minnesota and northwestern Iowa and to increase gradually across the Corn Belt toward the East and South. Normally, corn prices in the northwestern portion of the Corn Belt are 10 to 15 cents per bushel lower than in the eastern portion of the Belt. A flat loan rate, therefore, provides a much greater incentive to producers in the northwestern portion of the Corn Belt to place their corn under loan than is the case in the southern and eastern portion of the Corn Belt. Theoretically, therefore, a flat loan rate at or near average market prices would tend to cause large quantities of corn to be stored in the northwestern portion of the Belt and relatively small quantities to be stored in the eastern and southern portions of the Belt. As a matter of fact this is exactly what has happened during the last three years. Producers in the East have tended to feed practically all of their corn to livestock while producers in the Northwest have placed a substantial proportion of their corn in the "ever-normal granary". The result is that our reserve stocks of corn are concentrated largely in the western portion of the Belt--slightly more than 2/3 of all government-owned or government-loan corn being located in Iowa and Minnesota as of September 2, 1941--and reserve stocks are very small or non-existent in the eastern and southern portions of the Belt. Furthermore, since the Government has a relatively large investment in the stocks of corn stored in the western portion of the Belt it cannot move these stocks to the East without incurring a loss of transportation charges or asking prices which seem relatively high to producers in the East.

It will, of course, be difficult to work out satisfactory location differentials in the corn loan rates. Furthermore, the introduction of these differentials in the corn loan rates will tend to complicate the loan program and will only partially solve the problem of securing the most desirable distribution of reserve supplies of corn. However, there is a sound basis for geographical variations in corn loan rates as well as in wheat and cotton loan rates and we concur in the recommendation of the State Agricultural Planning Committees with respect to this matter.

Storage of Reserve Supplies of Feed in Deficit-producing Areas

During recent months, the Commodity Credit Corporation has been giving considerable attention to the storage of reserve supplies of feed in deficit feed-producing areas and the Corporation is now engaged in a number of operations designed to assist in assuring adequate supplies of feed in these areas at all times.

In discussing this problem, however, it is well to distinguish between its economic or price aspects on the one hand and its physical aspects on the other hand.

Some of the requests for the storage of reserve stocks of feed in deficit feed-producing areas may be based on the assumption that this will tend to make such feed available at a lower price. This, however, is not necessarily the case. The cost of moving feed to deficit areas for storage is just as great as for immediate sale and the mere fact that feed is shipped into and stored in the area does not necessarily mean that it will be sold at a lower price. But the physical aspects of the problem--the availability of storage space and the possibility of supplies being cut off by transportation difficulties--may fully justify the shipment of feed to deficit areas for storage.

The Commodity Credit Corporation has taken steps to meet both the economic and the physical aspects of this problem. Early in 1941 the Corporation began selling its stocks of corn and thus far has sold approximately 75,000,000 bushels of corn to livestock feeders and other users. This corn has been offered at prices sufficiently low to encourage these reserve stocks of corn to be converted into livestock products needed in the defense effort even though this resulted in some loss to the corporation.

In order to assist in assuring that adequate supplies of feed grains and feeds will be physically available in the northeastern States, the Corporation has (1) stored about 10,000,000 bushels of its corn in elevators at Buffalo, Albany, Philadelphia, and Baltimore, and is seeking additional facilities that may be utilized advantageously for this purpose; (2) made available an agreement to be entered into with lending agencies and feed manufacturers under which the Corporation assumes the price risk on reserve supplies of feed stored on farms; and (3) is developing an agreement to be entered into with lending agencies and feed manufacturers or distributors under which the Corporation shares jointly with the

manufacturer or distributor the price risk and storage costs of reserve supplies of feed or feed ingredients stored by the manufacturer or distributor.

Under item (2) the Commodity Credit Corporation has entered into an agreement with the Central Bank for Cooperatives and the Grange League Federation Cooperative Association. Under this agreement, a loan has been made to the Cooperative Association by the Central Bank for Cooperatives and the Cooperative is placing reserve supplies of feed on the farms of its patron members. It is estimated that under this agreement as much as 200,000 tons of feed may be placed on farms in New York State and adjacent areas served by the G. L. F. Cooperative Association.

These activities together with the efforts of the Agricultural Adjustment Administration, Production Credit Associations, the Farm Security Administration, private lending agencies, feed dealers, and other agencies directed toward encouraging and assisting farmers in building up reserve supplies of feed should help materially in assuring that adequate supplies of feed will be available in the northeastern States to avoid any interruption in the production of livestock products in the event of temporary delays in the transportation of feed to these States.

Accumulation of reserve food supplies and safeguarding of prices of foods of which the Secretary encourages an increase in production

This recommendation is in line with the announced policies of the Department and with existing legislation. On April 3, 1941, when the Secretary asked the producers of hogs, poultry, and dairy products to increase their production, he indicated that the Department would use its available resources to support the prices of these commodities at specified levels until July 1, 1943. In line with this announcement and subsequent announcements with respect to tomatoes, beans, and other commodities, substantial quantities of foodstuffs have been purchased for the account of Commodity Credit Corporation. These purchases have been made by the Federal Surplus Commodities Corporation under an agency arrangement. These foodstuffs acquired with Commodity Credit Corporation funds are available for export under lease-lend operations or for resale in the domestic market or for sale in the Surplus Marketing Administration for relief distribution. By means of this program, purchases can be planned and carried out so that they will be of maximum benefit to farmers. Purchases can also be made in the light of the necessary period for processing, the location of surplus stocks, and the seasonal peaks of production for marketing.

In addition, Public Law No. 147, an act approved July 1, 1941, extending the life of the Commodity Credit Corporation as an agency of the United States and increasing the borrowing power of the Corporation, provides that whenever during the existing emergency the Secretary of Agriculture finds it necessary to encourage the expansion of production of any non-basic agricultural commodity, he shall make public announcement thereof and he shall so use the funds made available through the Commodity

Credit Corporation or otherwise made available for the disposal of agricultural commodities so as to support a price for the producers of such commodity at 85 percent of parity or a comparable price. This act further provides that any such price-supporting operation shall be continued until the Secretary has given sufficient public notice to permit producers to make a readjustment in the production of the commodity. Pursuant to this act, the Department of Agriculture announced on September 8, 1941, that the Secretary had found it necessary, as a result of the existing emergency, to encourage the expansion of the production of hogs, eggs, evaporated milk, dry skim milk, cheese, and chickens, and that the Department of Agriculture would through loans, purchases, or other operations support a price for the producers of these commodities of not less than 85 percent of parity or a comparable price therefor during the period ending December 31, 1942.

It is anticipated that in these and other phases of the defense effort the funds of the Commodity Credit Corporation will be used extensively in accumulating reserve supplies and protecting farm prices in line with the recommendation of the State Planning Committees.

It is evident that the State Agricultural Planning Committees have been thinking constructively about these problems and we are glad to be able to report the initiation of action in line with many of their recommendations.

J. B. Hutson

J. B. Hutson
President
Commodity Credit
Corporation

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